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PROGRAMME PLANNING AND IMPLEMENTATION

Country, intercountry and global programmes

FIRST COUNTRY PROGRAMME FOR FEDERATED STATES OF MICRONESIA

Programme period	Resources	$
January 1993-December 1996	Net IPF	3 253 000
	Estimated cost-sharing	968 000
	Total	4 221 000

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I. DEVELOPMENT SITUATION, OBJECTIVES AND STRATEGIES

A. Current socio-economic situation

1. The newly independent country of the Federated States of Micronesia has a land mass of 690 square kilometres, comprising numerous small islands scattered over 4.8 million square kilometres of ocean. The country covers 32,000 kilometres from east to west and 1,600 kilometres from north to south. The dispersed nature of the islands, their limited natural resources and the lack of skilled manpower have made development difficult and very costly.

2. The population is estimated at 100,500. Population growth, at a rate of 3.4 per cent, places an increasing strain on the country's natural resources, socio-economic infrastructure and services. The infant mortality rate is in the range of 30 to 45 per 1,000 live births; the literacy rate is 58 per cent; and life expectancy at birth is 61 years. Unemployment is a serious problem which affects youth and women in particular: 66 per cent of the unemployed are women and 49 per cent are between the ages of 15 and 24. Seventy-four per cent of the population live in rural areas. Basic services, as well as communication links to the most remote areas, are either completely lacking or very expensive.

3. Per capita gross domestic product (GDP) is $1,467 (1989), with pronounced differences among states. The economy consists of a predominant subsistence sector, based on agriculture and artisanal fisheries, and a modern service-oriented sector led by public services. Existing economic activities, trade and tourism are dependent to a considerable extent on public expenditure. Imbalances exist between consumption and production, domestic expenditure and revenue. Domestic expenditures account for only 34 per cent of total government expenditure (1990). The country's trade balance also remains very unfavourable, with an annual trade deficit of $100 million. The private sector is fragile and requires considerable incentives, policy formulation and technical support.

B. National development objectives and strategies

4. The broad development objective of the Government is to attain sustainable development that will ensure a decent quality of life and preserve national unity and heritage. The Second National Development Plan (1992-1996) articulates the Government's main policy orientations and development themes: economic development through optimum use of productive resources; human resources development; generation of adequate employment opportunities; upgrading of services and operations of the Government; promotion of equity; and sound environmental resource management.

5. To achieve these national objectives, the Government plans to: develop a leading role for the private sector, through the establishment of an appropriate policy and incentive structure; upgrade the education and skills level of the labour force; and strengthen the institutional management capacity of the public sector.

II. EXTERNAL COOPERATION

A. Role of external cooperation

6. The Federated States of Micronesia is heavily dependent on external development assistance which finances 73 per cent of total government revenue. Capital grants from the Government of the United States of America are the main source of external funding. Under the Compact of Free Association, grants amount to about $100 million per year, based on a declining scale from 1986 to 2001, and have been spent mainly on infrastructure development. The contribution of the Government of Japan has averaged about $5 million per year since 1985, focusing mainly on fisheries, road networks and utilities. In the last few years, the list of donors of economic and technical assistance has been growing. New sources of assistance include the Governments of Australia, China and New Zealand. The Asian Development Bank (AsDB) will be providing substantial assistance in the form of loans to the fisheries and agriculture sectors (an estimated total of $14 million) and also to the financial sector.

7. The Federated States of Micronesia joined the United Nations in 1991. However, technical cooperation has been provided by the United Nations Development Programme (UNDP) since the early 1970s. The United Nations Children's Fund (UNICEF), the United Nations Population Fund (UNFPA) and the World Health Organization (WHO) also have ongoing technical cooperation programmes, utilized mainly for institution-building, development of the planning process and improving service delivery. The International Monetary Fund (IMF) and the World Bank have provided technical advice on macroeconomic and fiscal matters.

B. Coordination arrangements

8. Aid coordination has not been a major government concern in the past since contributions from the United States constituted the single principal source of assistance. However, with the growing diversity of sources of external assistance, there is a growing need to plan, monitor and coordinate development assistance. The Government is making efforts to consolidate the fragmented management of aid currently shared by the Department of Finance, the Department of External Affairs, the Office of Budget and the Office of Planning and Statistics.

9. A new Presidential Order has been issued to establish a Coordination Committee for External Assistance. Chaired by the Office of Budget, the Committee will comprise representatives from the Office of Planning and Statistics, the Department of Resource and Development and the Department of External Affairs. This Committee will set priorities and policy guidelines for streamlining aid flow and management. However substantive programme direction will be coordinated by the Office of Planning and Statistics to ensure consistency with National Plan priorities. AsDB has proposed a technical cooperation project for strengthening foreign aid administration and improving budgetary procedures. UNDP will be called upon to contribute to aid coordination and mobilization through the organization of a round-table conference.

III. THE COUNTRY PROGRAMME

A. Assessment of ongoing projects

10. Two thirds of UNDP funding for the 1987-1991 period was allocated to national and state planning and project development. Given the limited institutional capacity of the country when the first Compact of Free Association funds were received, this technical cooperation was instrumental in promoting a new, coherent set of procedures, strengthening the statistical base and preparing national and state plans.

11. For the most part capacity-building and transfer of skills have not been successful because the formal training of counterparts has been limited and the Government has not been able to retain training personnel. Capacity-building will be more effective when more fellowships are provided to create a pool of trained professionals.

B. Proposals for UNDP cooperation

1. Preparatory process

12. Consultations were held with the Government, other donors and the relevant United Nations agencies in developing the first country programme for the Federated States of Micronesia. The Government's Second Development Plan and various policy papers were taken into consideration, as were discussions on government priorities and recommendations contained in the UNDP advisory note.

2. Strategy for UNDP cooperation

13. To make the best use of the limited resources of UNDP, the Government proposes that UNDP cooperation adopt a more programme-oriented approach directed towards those critical and delicate areas that hamper the country's development. The Government seeks to enhance the impact of development assistance by drawing on resources and inputs from other United Nations and bilateral donor programmes, through such cost-sharing arrangements and cost-effective modalities as the United Nations Volunteers (UNV) and United Nations International Short-Term Advisory Services (UNISTAR). Within the framework of structural adjustment measures, the Government seeks to upgrade public-sector performance and foster private-sector growth. In support of these efforts, UNDP intervention is sought in the early stages of policy formulation to advise decision-makers and recommend appropriate legislation and reform. In addition, UNDP expertise in institution strengthening and training, and its particular sensitivity to disadvantaged groups, will be solicited to assist in human development and skills enhancement. The experience of UNDP in capacity-building for environmentally sustainable development and in the implementation of Agenda 21 makes it the most appropriate body to respond to government concerns for more sustainable resource management, environmental protection and additional resource mobilization for this purpose. The Government wishes to participate more actively in the Pacific subregional programme, to reinforce country programme activities and to support government strategies in areas outside the country programme focus.

3. Proposed UNDP cooperation in selected areas of concentration

14. In accordance with the Government's strategy for use of UNDP resources, the proposed areas of concentration of UNDP cooperation are: private-sector and entrepreneurship development; economic management and public-sector reform; and environmental management. The components of UNDP cooperation within these three areas of concentration are presented below.

Private-sector and entrepreneurship development

15. The Government has determined that the private sector should be the primary driving force for generating production and income, maintaining economic growth and creating employment. But currently the private sector is in its infancy, beset with such structural constraints as limited market size, lack of skilled manpower and technology and lack of an enabling environment and supportive incentive measures. The Government is determined to promote private-sector investment in such key productive and service sectors as agriculture, fisheries, livestock, small-to-medium-scale manufacturing and tourism. At this time there is no comprehensive policy framework for effecting this ambitious programme.

16. Policy advice. The Government proposes to utilize UNDP technical cooperation in a two-pronged way. First, at the policy level, the UNDP programme will provide assistance to review private-sector potential; develop a comprehensive package of policy and incentive measures to create an enabling environment; and provide promotion and support services both at the national and state levels. Services under this programme will also provide objective assessment and evaluation of investment proposals.

17. Development of small- and medium-size businesses. The second component will focus on development and support of small- and medium-size businesses, micro-enterprises and cooperatives, including those in the primary sector, in order to empower communities and people at the grass-roots level to utilize and benefit from their productive skills and resources on a sustainable basis. A Micronesian Enterprise Development Centre will be developed to provide entrepreneurial and technical training. Initially, training activities will be coupled with appropriate linkages with financial institutions and adequate follow-through. This programme will bring potential entrepreneurs on stream and build an indigenous institutional capacity for sustained programmes in future years.

18. The Government is encouraging private-sector involvement in developing the productive sectors of the economy. The AsDB will provide loans in the amount of $8 million for the commercial fisheries sector and $6 million for agriculture and crop development. The UNDP livestock development project will support private livestock and poultry farming. AsDB support to the Federated States of Micronesia Development Bank is expected to strengthen its credit capacity and management. The tourism sector will be developed with major Japanese private investment. The programme will seek additional technical and other support from UNDP regional programmes on small enterprise development and the South Pacific Project Facility.

19. The country programme will include specific measures and inputs to ensure substantial participation of women and youth. For instance, in the

entrepreneurship development project, women entrepreneurs will be involved in at least 20 per cent of new ventures. Assistance to small business and micro-enterprises managed by women, particularly in rural areas, will be enhanced through linkages with UNFPA activities in this field. The programme will also focus on environmentally sound and sustainable development practices and will strike a balance between development and the environment.

20. The Government proposes to allocate 35 per cent of country programme resources to private-sector and entrepreneurship development. Substantial results are expected from UNDP cooperation in this area. At the end of the fifth cycle a comprehensive national programme for private-sector development will have been formulated and its implementation in key areas begun. The policy framework for creating and enabling environment for private enterprise will be in place. About 30 small- and medium-scale indigenous businesses will have been established. National capacity to promote and support small enterprise development is expected to be considerably strengthened and consolidated.

Economic management and public-sector policy and reform

21. With the phasing-out of funding from the Compact of Free Association, public expenditures will be severely curtailed. To prepare the country for stricter financial discipline, the Government faces the challenge of readjusting fiscal and monetary policy and reforming the public sector. Public-service and parastatal corporations will need to operate more cost-effectively. New policy outlooks are required on such critical issues as privatization, subsidies and restructuring of public corporations. In addition, human resources within the public service must be developed with requisite professional and managerial skills to plan, manage and perform expected roles and functions. This includes the capability to select prudent and result-oriented investment projects as an integral part of development planning.

22. The Government wishes to utilize UNDP capacity to provide neutral policy and technical advice on the above issues and also formulate cost-effective methods of human resources development in the public sector. The catalytic role of UNDP will generate follow-up programmes for further external support. The Government foresees three broad programme components which could be further strengthened through programme formulation.

23. Development policy formulation. UNDP technical cooperation is required to support development policy formulation and planning in a strategically focused manner. This programme will develop appropriate systems for project monitoring and maintenance of national accounts. In particular, it will enhance the Government's capacity to review and evaluate project implementation under the previous plan, thus contributing to prudent and rational project selection. It will also provide support to aid coordination through the proposed round-table process and assistance to investment programme formulation. The country programme will constitute a logical follow-up to earlier UNDP support provided in formulation of the plan. Assistance will be geared to the needs of both national and state governments in project implementation.

24. Strategic policy analysis and advice. The second component of the programme will comprise strategic policy analysis and advice on emerging public-sector management issues and policies spanning a number of sectors and

operations. Specific focus areas have yet to be identified; Special Programme Resources (SPR) will be sought to formulate and design a programme with a view to attracting funding from other donors. The initial proposals of the UNDP Management Development Programme mission of 1991 will be pursued. The programme may include assessment of privatization proposals; public subsidies; restructuring and rationalization of public corporate entities; investment promotion through tax restructuring and tax holidays; and specific public acquisition and investment proposals. These recommendations will have a visible impact on emerging strategies and will make policies and decisions soundly, based on programme objectives. With regard to fiscal and monetary reform, the programme will benefit from technical support provided by the UNDP Pacific subregional economic and financial management and reform programme.

25. Human resources capacity-building. A third component will involve human resources development in specific management and professional areas. The Government is undertaking a major managerial skills analysis and training needs assessment for each department. Based on its findings, clustered managerial training modules will be created at the national and state level. UNDP resources will be matched by government contributions to provide greater training opportunities for public servants.

26. The Government suggests that about 28 per cent of resources be devoted to this area of concentration. UNDP contributions will be part of national programmes to improve public-sector and economic and financial management performance. Such programmes will enable the Government to transform the national economy into one based on the productive capacity of the private sector. It will also help the Government prepare for reduced funding from the Compact of Free Association.

Environmental management and sustainable resource use

27. The Government firmly believes that improving overall quality of life requires careful, long-term management of the environment and natural resources. It is well recognized that sustainable economic growth goes hand in hand with environmentally sound development. The Government's recent report to the United Nations Conference on Environment and Development (UNCED) in June 1992 and the formulation of the National Environmental Management Strategy, supported by the Pacific multi-island (PMI) IPF-funded regional environmental planning and implementation programme, provide a sound basis for building institutional and human resources capacity for sustainable development.

28. Institution-building and policy framework. The Government proposes to allocate substantial UNDP resources to strengthen state and national capacities to address environmental issues. Assistance will be utilized to carry the National Environmental Management Strategy process through institutional capacity-building; development of a policy framework for the use of important natural resources; environmental legislation; environmental education and awareness; and integration of environmental considerations at all levels of planning and programming. UNDP cooperation will also encompass analysis of demographic limits and the islands' carrying capacity. In this connection, UNDP will encourage coordination among the United Nations agencies to address population issues jointly. In particular, UNDP will collaborate with UNFPA to identify and evaluate the complex interrelationship between population,

environment and sustainable development. Assistance in this area will include policy analysis, resource planning and management and establishment of comprehensive baseline data.

29. Sustainable development practices. The second phase of efforts will be geared to community outreach programmes and to addressing emerging critical issues at the grass-roots level. In order to sustain the resource base and have greater impact on the quality of life, community groups will be targeted through local leadership, non-governmental organizations (NGOs) and extension workers. The introduction of sustainable development practices at the community level is vital and such programmes will be developed by tapping the regional Sustainable Development Network recently established by UNDP. The critical issue of water resources management is being addressed by an ongoing UNDP-funded project in the four states, backstopped by the subregional water and sanitation programme. Similar initiatives will be extended to waste water disposal and solid waste management. Problems relating to watershed conservation, reef conservation, coastal management and commercial fishing will be examined in order to formulate policies.

30. The Government wishes to adopt a programme approach to take full advantage of complementarity between the South Pacific Biodiversity Conservation Programme funded under the Global Environment Facility (GEF), the Capacity 21 initiative, the South Pacific Regional Environment Programme and relevant subregional sectoral programmes. UNDP cooperation will be utilized to mobilize further donor assistance and secure additional funding from various sources.

31. The Government plans to allocate 18 per cent of resources to this area of concentration. The overall impact of UNDP cooperation will be to heighten the awareness of national decision-makers and communities of resource limits and to introduce sustainable natural resource management. The Government understands that this is a long-term process but believes a solid foundation will be formed during the country programme period.

C. Assistance outside the main areas of concentration of the country programme

32. While the new country programme will focus mainly on the areas mentioned above, the resources of the proposed UNDP fifth cycle subregional programme will be utilized to support the Government's efforts in other priority areas. In particular, assistance will be drawn from the regional Equitable and Sustainable Human Development Programme to support government efforts for balanced regional development. The regional disaster mitigation Project will help the Government minimize and alleviate suffering and loss caused by natural disasters.

D. Implementation and management arrangements

33. The Government will support national execution of projects during the proposed programme cycle. This modality will be implemented in the context of building national capacity for programme and project management through workshops, such as the one offered in October 1992, and other training

activities. National execution will be considered only when appropriate conditions exist.

34. The federal structure of the Government and the particularities of each state necessitate a complex project design with a strong coordination and supervision component. The Government considers that cost-effective project personnel such as the United Nations Volunteers (UNV) should be fielded in each state, as appropriate, while national counterparts are being trained. Short-term experts will be called upon for periodic coordination of activities and to complement project staff technical expertise.

35. The Government is already providing cost-sharing in a number of projects and has expressed interest in pursuing this strategy to make greater funds available for UNDP programming.

36. UNDP will assist in the implementation of the country programme in close consultation with UNFPA and UNICEF, in order to combine inputs and efforts for a greater and more coherent impact. Effective linkages will be made with other donor activities and with regional projects to complement and enhance the UNDP programme. A mid-term review is scheduled for 1995 to evaluate progress of the programme.

Annex I

FINANCIAL SUMMARY

I. ESTIMATED RESOURCES (IPF + cost-sharing) TAKEN INTO ACCOUNT FOR PROGRAMMING

(Thousands of dollars)

Carry-over from fourth cycle IPF	1 361	
Fifth cycle IPF	2 338	
Estimated expenditures in 1992	(446)	
Subtotal IPF		3 253
Project cost-sharing (Government)	968 a/	
Project cost-sharing (third party)	-	
Programme cost-sharing	-	
Subtotal cost-sharing		968
TOTAL		4 221

II. ALLOCATION OF RESOURCES (IPF + cost-sharing) BY AREA OF CONCENTRATION

Area of concentration	Thousands of dollars			Percentage of total resources
	IPF	Cost-sharing	Total	
Private sector and entrepreneurship development	1 100	368	1 468	35
Economic management and public-sector policy reform	800	400	1 200	28
Environmental management and sustainable resource use	540	200	740	18
Subtotal	2 440	986	3 408	81
Unprogrammed reserve	813	-	813 b/	19
TOTAL	3 253	968	4 221	100

a/ Government cost-sharing has been committed for areas (1) and (3). It is to be confirmed for area (2).

b/ Thirty-five per cent of the fifth cycle IPF.

III. COMPLEMENTARY ASSISTANCE FROM OTHER SOURCES USED IN AREAS OF CONCENTRATION

(Thousands of dollars)

A.	UNDP-administered funds	
	SPR	-
	UNCDF	-
	UNSO	-
	UNIFEM	-
	UNRFNRE	-
	UNFSTD	-
	Subtotal	-
B.	Other United Nations resources	
	JCGP participating agencies	
	UNFPA	460
	UNICEF	-
	WFP	-
	IFAD	-
	Other United Nations agencies (non-UNDP financed)	-
	Global Environment Facility	-
	Subtotal	460
	Total non-core and other United Nations resources	460
C.	Non-United Nations resources	-
	TOTAL	460

Annex II

PROGRAMME MATRIX a/

Area of concentration	Area of focus					
	Poverty eradication and grass-roots participation in development	Environment and natural resource management	Management development	TCDC	Transfer and adaptation of technology	WID
I. PRIVATE-SECTOR AND ENTREPRENEURSHIP DEVELOPMENT						
Policy advice			*			*
Small- and medium-size business development	*		*	*	*	*
II. ECONOMIC MAANGEMENT AND PUBLIC-SECTOR POLICY AND REFORM						
Development policy implementation			*			
Strategic policy analysis and advice			*	*		
Human resource capacity-building			*			*
III. ENVIRONMENTAL MANAGEMENT AND SUSTAINABLE RESOURCE USE						
Institution building and policy framework		*	*			*
Sustainable development practices						

a/ Asterisks indicate major linkage only.